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SUBJECT: ITALIAN EXCHANGE MARKET DEVELOPMENTS

SUMMARY. BALANCE OF PAYMENTS FOR FIRST HALF DECEMBER
REGISTERED SMALL DEFICIT OF \$5.3 MILLION AND 1975

BALANCE OF PAYMENTS THROUGH FIRST ELEVEN AND ONE HALF
MONTHS SHOWED \$1,160.5 MILLION CUMULATIVE RECORDED
DEFICIT. FOR SAME PERIOD ADJUSTED BALANCE OF PAYMENTS
(EXCLUDING \$929 MILLION IN EUROMARKET LOAN REPAYMENTS)

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SHOWED CUMULATIVE DEFICIT OF \$231.5 MILLION.

HEAVY BOI EXCHANGE MARKET INTERVENTION DURING ALL DECEMBER RESULTED IN \$427 MILLION NET SALES OF FOREIGN EXCHANGE. FROM JANUARY 1 THROUGH 7(I.E., THREE MARKET DAYS) THERE WERE NET MARKET INTERVENTION SALES OF \$51 MILLION OF FOREIGN EXCHANGE. END SUMMARY.

1. MONETARY MOVEMENTS DATA FOR FIRST HALF DECEMBER RECORDED SMALL DEFICIT OF \$5.3 MILLION. CHANGES IN BOI RESERVES DURING PERIOD WERE DECREASE IN CONVERTIBLE CURRENCY HOLDINGS OF \$88.5 MILLION, INCREASE IN SHORT-TERM LIABILITIES BY \$26.3 MILLION, DECREASE IN MEDIUM AND LONG-TERM LIABILITIES BY \$29.7 MILLION, AND SLIGHT DECREASE IN SDR HOLDINGS BY \$0.1 MILLION. COMMERCIAL BANKS' NET FOREIGN DEBT REGISTERED DECREASE OF \$79.9 MILLION.

2. RECORDED BALANCE OF PAYMENTS CUMULATIVE DEFICIT FOR FIRST ELEVEN AND ONE-HALF MONTHS OF 1975 OF \$1,160.T MILLION WAS FINANCED BY DECREASE IN BOI FOREIGN EXCHANGE ASSETS BY \$1,551.1 MILLION, DECREASE IN SDR HOLDINGS OF \$124.4 MILLION, DECREASE IN BOI SHORT-TERM LIABILITIES OF \$40.4 MILLION, INCREASE IN BOI MEDIUM AND LONG-TERM LIABILITIES OF \$465.8 MILLION, AND DECREASE IN SHORT-TERM BORROWINGS OF COMMERCIAL BANKS OF \$940.4 MILLION. FOR SAME PERIOD ADJUSTED BALANCE OF APYMENTS (EXCLUDING \$929 MILLION IN EUROMARKET LOAN REPAYMENTS) SHOWED CUMULATIVE DEFICIT OF \$231.5 MILLION.

3. ACCORDING TO DR. CESARE GERONSI, CHIEF FOREGIN EXCHANGE SECTION BOI, HEAVY BOI EXCHANGE MARKET INTERVENTION FOR ALL DECMEBER RESULTED IN \$427 MILLION NET SALES OF FOREIGN EXCHANGE. FROM JANUARY 1 THROUGH 7(I.E., THREE MARKET DAYS) THERE WERE NET SALES OF \$51 MILLION OF FOREIGN EXCHANGE. GERONSI ATTRIBUTED RELATIVE WEAKNESS OF LIRA TO LARGE OIL PAYMENTS MADE IN NOVEMBER AND DECEMBER, A \$60 MILLION PAYMENT BY ENI TO SHELL IN FINAL PAYMENT FOR FORMER SHELL PROPERTIES IN ITALY, AND SPECULATION IN FAVOR OF SWISS FRANC. GERONSI SAID THAT, WITH REJECTION OF SWISS BID TO ASSOCIATE SWISS FRANC WITH EC SNAKE, MARKET LIMITED OFFICIAL USE

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OPERATORS HAVE CONCLUDED THAT SWISS FRANC IS NOW FREE TO APPRECIATE FURTHER. CONCLUSION OF ITALIAN EXCHANGE OPERATORS IS THAT LIRA WILL WEAKEN AGAINST SWISS FRANC AND AGAINST OTHER CURRENCIES, PROVIDING INCENTIVE FOR PURCHASE OF FOREIGN CURRENCIES BOTH FOR CURRENT AND FOR FUTURE PAYMENTS.

4. ON JANUARY 7 FOLLOWING FINANCIAL RATES PREVAILED:

LIRA SPOT EXCHANGE RATE WAS 680.6 LIRE PER DOLLAR,
THREE-MONTH FORWARD RATE WAS 684.75 LIRE PER DOLLAR,
WEIGHTED AVERAGE DEVALUATION OF LIRA, ACCORDING TO
BOI INDEX SINCE FEBRUARY 9, 1973 BASE PERIOD WAS
AGAINST ALL MAJOR CURRENCIES 20.43 PERCENT, AGAINST
THE DOLLAR 14.64 PERCENT, AND AGAINST EC CURRENCIES
24.85 PERCENT. BLACK MARKET RATE IN MILAN WAS
745 LIRE PER DOLLAR, THREE-MONTH EUROLIRA INTEREST
RATE WAS 7.9375 PERCENT, LIRA INTERBANK FORTY-EIGHT
HOUR RATE WAS 7.125 PERCENT, AND LIRA INTERBANK THREE-
MONTH RATE WAS 7.71875 PERCENT.VOLPE

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